D.T.E. 00-80

Investigation by the Department of the Firm Liquid Service Agreement dated October 24, 2000, between the Boston Gas Company and Distrigas of Massachusetts Corporation which provides for the seasonal refill requirements of Boston Gas LNG facilities in Lynn, Salem, and Dorchester, Massachusetts.

APPEARANCE: Thomas P. O'Neill, Esq.

One Beacon Street

Boston, Massachusetts 02108

FOR: BOSTON GAS COMPANY

Petitioner

I. INTRODUCTION

On October 24, 2000, pursuant to G.L. c. 164, § 94A, the Boston Gas Company ("Boston Gas" or "Company") petitioned the Department of Telecommunications and Energy ("Department") for approval of a gas supply contract ("Agreement"), executed between Boston Gas and Distrigas of Massachusetts Corporation ("Distrigas" or "DOMAC"). The Department docketed the petition as D.T.E. 00-80. Pursuant to notice duly issued, a public and evidentiary hearing was held at the offices of the Department on January 4, 2001. No petitions to intervene were filed. In support of its petition, the Company offered the testimony of William R. Luthern, Vice President of Gas Control. At the hearing, the hearing officer granted the Company's motion for confidential treatment relative to pricing terms contained in the Agreement and the pre-filed testimony of William R. Luthern. The evidentiary record consists of nine exhibits and two responses to record requests.

II. STANDARD OF REVIEW

In evaluating a gas utility's resource options for the acquisition of commodity resources as well as for the acquisition of capacity under G.L. c. 164, § 94A, the Department examines whether the acquisition of the resource is consistent with the public interest.

Bay State Gas Company, D.T.E. 98-79 at 1 (1998), Commonwealth Gas Company, D.P.U./D.T.E.94-174-A at 27 (1996). In order to demonstrate that the proposed acquisition of a resource that provides commodity and/or incremental resources is consistent with the public interest, a local distribution company ("LDC") must show that, at the time of the acquisition or contract renegotiation, the acquisition (1) is consistent with the company's portfolio objectives,

and (2) compares favorably to the range of alternative options reasonably available to the company and its customers, including releasing capacity to customers migrating to transporting. Id.

In establishing that a resource is consistent with the company's portfolio objectives, the company may refer to portfolio objectives established in a recently approved resource plan or in a recent review of supply contracts under G.L. c. 164, § 94A, or may describe its objectives in the filing accompanying the proposed resource. Id. In comparing the proposed resource acquisition to current market offerings, the Department examines the relevant price and non-price attributes of each contract to ensure a contribution to the strength of the overall supply portfolio. Id. at 28. As part of the review of relevant price and non-price attributes, the Department considers whether the pricing terms are competitive with those for the broad range of capacity, storage and commodity options that were available to the LDC at the time of the acquisition, as well as with those opportunities that were available to other LDCs in the region. Id. In addition, the Department determines whether the acquisition satisfies the LDC's non-price objective including, but not limited to, flexibility of nominations and reliability and diversity of supplies. Id. at 29.

III. DESCRIPTION OF THE CONTRACT

The proposed Agreement would be effective for the seven-year period beginning

March 1, 2001, through October 31, 2008 (Exhs. BCG-1, BCG-2). The Agreement provides for the seasonal refill requirements of the Boston Gas LNG facilities in Lynn, Salem, and Dorchester, Massachusetts, up to a total annual quantity not to exceed 3,500,000 MMBtu, plus any additional quantity required to fill a final truck to capacity (id.). In addition, the Agreement provides that Boston Gas may elect to meet all or a portion of the refill requirements of the Dorchester LNG facility by liquefaction (Exhs. BCG-1, BCG-2; Tr. at 13).

Under the terms of the Agreement, the price payable by Boston Gas is a negotiated rate based upon an index of the average New England spot price for the months April through October of each contract year (id.). Specifically, there are two pricing levels contained in the contract (Tr. at 9). The first level is the base commodity price, a market-based price that represents the delivery of gas to New England in vapor form, plus a component that adds to this the value of converting the vapor into liquid (id.). Included in the base commodity price are the base city-gate index, which represents a percentage of the base commodity charge, and a component representing transportation costs to the Company's facilities (id. at 9-10). The base commodity charge applies to all volumes delivered to the Company's facilities other than its Dorchester plant (i.e., Lynn and Salem) (Tr. at 13). The special commodity price reflects the Company's ability to liquefy gas at the Company's Dorchester plant (Exhs. BCG-1, BCG-2; Tr. at 10).

IV. THE COMPANY'S POSITION

The Company claims that this Agreement is consistent with its most recently approved Long Range Forecast and Requirements Plan in docket D.P.U./D.T.E. 97-81 (Exh. BCG-2). The Company asserts that the portfolio of resources reviewed by the Department in D.P.U./D.T.E 97-81 included a similar seasonal refill agreement for up to 2,000,000 MMBtu of LNG per year that expired in April 1999 and the Company disclosed in the filing that it had an agreement in principle in place with DOMAC for a replacement agreement of up to 3,500,000 MMBtu of LNG per year, subject to Department approval (id.).

The Company states that it did not solicit competitive bids from other suppliers because other facilities either could not meet the demand required by the Company, or were geographically too far away as to make it impracticable (Exh. BCG-2; Tr. at 7-9). The Company claims that it sought to have a local supplier to minimize transportation costs associated with delivery (Exh. BCG-2; Tr. at 7). Moreover, the Company asserts that given DOMAC's size and close proximity to the Company's local distribution system, DOMAC was "uniquely positioned" to meet the Company's LNG refill requirements in a least cost and reliable fashion (Exh. BCG-2). In addition, the Company asserts that no other local third-party LNG supplier was capable of providing the level of service required by the Company (Exh. BCG-2).

The Company asserts that the proposed contract was obtained at the least cost because the base commodity charge payable by the Company to DOMAC is a market rate for off-peak deliveries (i.e., April through October) to Boston plus an adjustment that reflects the value of LNG as a resource that can be stored for peaking use (id.). In addition, the Company states that, as additional protection, the rate payable by the Company cannot exceed the average of the Firm Commodity Cap in DOMAC's FERC-approved rate scheduled FVSS (id.). The Company claims that because the rate is tied to a known and reliable index of gas prices, it is confident that the rate accurately reflects the market value of this service (id.).

V. ANALYSIS AND FINDINGS

The Company's objectives in contracting with DOMAC are to meet peak season requirements in excess of firm pipeline entitlements in a least-cost fashion and to maintain system pressures. The Agreement provides for the refill requirements of the LNG tanks in the off-peak season from April through October of each contract year in a cost-effective manner ensuring that these resources are available when needed during the heating season. In addition, because the Company has the ability to liquify pipeline gas at its Dorchester facility, the Company may elect to supply all or a portion of its refill requirements for that facility through liquefaction, should that be a least cost alternative to the DOMAC supply. This, in turn, provides DOMAC the option of supplying those volumes at a Special Commodity Rate. The Department finds that the Company's Agreement is designed to meet its seasonal refill requirements at a least-cost alternative and is consistent with the Company's portfolio in Boston Gas Company, D.P.U./D.T.E. 97-81 (2000).[(1)] Accordingly, the Department finds that the Company's contract is consistent with the Company's portfolio objectives.

In determining whether a gas supply or capacity contract compares favorably to the range of alternative options reasonably available, the Department must consider both price and non-price attributes as part of a comprehensive assessment of the proposed contract. The Company negotiated a pricing structure based on the off-peak season and considered DOMAC not only best situated geographically, but given its size, the most capable supplier providing the level of service required by the Company. The Department finds that the Company adequately evaluated the price and non-price factors of the Agreement and the contribution of those factors to the strength of Boston Gas' overall portfolio. Accordingly, the Department finds that Boston Gas selected a resource that compares favorably to the range of alternative options reasonably available to the Company.

Because the LNG Agreement is consistent with the Company's portfolio objectives and compares favorably to the range of alternative options reasonably available to the Company and its customers, the Department finds that Boston Gas' acquisition of this resource is consistent with the public interest and, therefore, the Agreement filed on October 24, 2000, is approved.

VI. ORDER

Accordingly, after due notice, hearing, and consideration, it is

ORDERED: That the gas supply Agreement for seasonal refill requirements between the Boston Gas Company and Distrigas of Massachusetts Corporation filed on October 24, 2000, is hereby approved.

By Order of the Department,

James Connelly, Chairman

W. Robert Keating, Commissioner

Paul B. Vasington, Commissioner

Eugene J. Sullivan, Jr., Commissioner

Deirdre K. Manning, Commissioner

Appeal as to matters of law from any final decision, order or ruling of the Commission may be taken to the Supreme Judicial Court by an aggrieved party in interest by the filing of a written petition praying that the Order of the Commission be modified or set aside in whole or it part.

Such petition for appeal shall be filed with the Secretary of the Commission within twenty days after the date of service of the decision, order or ruling of the Commission, or within such further time as the Commission may allow upon request filed prior to the expiration of twenty days after the date of service of said decision, order or ruling. Within ten days after such petition has been filed, the appealing party shall enter the appeal in the Supreme Judicial Court sitting in Suffolk County by filing a copy thereof with the Clerk of said Court. (Sec. 5, Chapter 25, G.L. Ter. Ed., as most recently amended by Chapter 485 of the Acts of 1971).

1. The portfolio of resources reviewed by the Department in D.P.U./D.T.E. 97-81 included a similar seasonal refill agreement for up to 2,000,000 MMBtu of LNG per year, which expired in April, 1999.